MANNING THE ACTIVE-DUTY MILITARY UNDER ALTERNATIVE PAY RAISE PROPOSALS

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INTRODUCTION

During recent years, the Congress has expressed much concern about enlisted recruitment and retention in the active-duty military. Its concern has focused on the insufficient numbers of experienced personnel staying in the services, particularly the Navy, and on the insufficient quality of recruits joining the services, particularly the Army. To a great extent, these difficulties arose from restraints that were placed on the growth of military pay in 1979 and 1980.

In response to these concerns, the Congress has raised military pay and allowances by roughly 30 percent over the last two years. These increases, combined with the economic slowdown and other factors, have raised dramatically the levels of enlisted quality and experience in the active-duty military force. As evidence, the proportion of male recruits holding high school diplomas--a commonly used measure of quality--climbed from 65 percent in fiscal year 1980 to 79 percent in 1981, and could reach 85 percent in 1982. The number of enlisted personnel with more than four years of active-duty service--a common measure of career retention--rose between 1980 and 1981 by about 36,000, and could increase by roughly 35,000 more in 1982. Meantime, each service met its numerical requirements for manpower in 1981, and should meet them as well in 1982.

As the Congress debates the Department of Defense's budget for fiscal year 1983, it will again address the annual raise for military pay and allowances. The Administration recommended in February an across-the-board military raise of 8 percent, which would take effect in October 1982, to keep pace with anticipated growth in civilian pay. 1/ More recently, however, Congressional interest has centered on the budgetary savings from alternative courses. The Congress might choose instead to give a smaller across-the-board percentage raise, or a raise restricted to more experienced personnel, or no pay raise at all.

In view of past concerns, the Congress may wish to consider what effects any given course taken in October may have on recruitment and retention, as well as on costs, over the next few years. With a few exceptions, the services have little difficulty

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1/ Appendix A briefly discusses the way in which the annual military pay raise is determined.

recruiting and retaining officers. The outlook for enlisted military manpower, however, remains problematic. For one thing, the Air Force and especially the Navy plan to increase their strengths substantially (in the Navy's case, to man the "600-ship" fleet), which will add to their requirements for recruits and experienced personnel. At the same time, recruitment will be restrained by declining numbers of youths, falling rates of unemployment, and the current law that limits the percentage of recruits who score in the lowest acceptable category on the military's entrance examination (Category IV of the Armed Forces Qualification Test) to no more than 20 percent in each service. Moreover, the Congress is likely to extend into later years the requirement, imposed in 1982, that at least 65 percent of the Army's male recruits without prior military service be high school diploma graduates.

This report explores the effects on enlisted recruitment and retention, as well as on budgetary outlays, of three alternatives to the Administration's proposed 8 percent pay raise for 1983:

- A pay raise of 4 percent for all pay grades, which the House Budget Committee and other groups have proposed;
- A pay raise of 8 percent for senior pay grades E-5 to E-9, and no raise at all for pay grades E-1 to E-4, which follows the general pattern of last year's "targeted" increase and illustrates another possible course 2/; and
- No pay raise at all, which has been discussed in some budgetary debates.

The estimates in this report assume no catch-up pay raises beyond 1983, though pay raises after 1983 are assumed to keep pace with civilian wage increases. Also, the estimates assume that today's policies regarding enlistment and reenlistment standards remain in

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2/ This alternative follows the pattern established by the October 1981 raise. Although that increase averaged out to 14.3 percent, the Congress gave above-average raises to pay grades E-5 to E-9 and below-average raises to pay grades E-1 to E-4. This restricted alternative would also deny October raises to officers in pay grades O-1 and O-2.

effect over the period. 3/ Finally, the estimates assume gradual improvement in the national economy--meaning decreases in the rate of civilian unemployment from 8.9 percent in calendar year 1982 to 6.7 percent by 1987. 4/

MAJOR FINDINGS

CBO's comparison of the estimated effects of the 8 percent across-the-board pay raise and those of the three alternative pay proposals suggests several major conclusions:

- Under the 8 percent across-the-board raise, the military would realize substantial growth between 1982 and 1987 in the size of the career force. The number of experienced personnel (those with more than 4 years of service) would grow by 167,000, or 20.5 percent. Meantime, the overall percentage of male recruits holding high school diplomas would average out to 79 percent overall. While the Army's recruitment would fall below this average, it would still exceed the minimum standard of 65 percent male high school graduates.

- Under a 4 percent across-the-board pay raise, the services would realize somewhat slower growth in the size of the enlisted career force. Between 1982 and 1987, numbers of experienced personnel would increase by about 125,000, or 15 percent. The overall percentage of male recruits holding high school diplomas would decrease roughly 5

3/ This assumption disregards recent Army policies raising reenlistment standards, which could limit the growth of the career force (the sum of those with more than four years of service). CBO used this assumption, though, to compare the effects of alternative pay raises apart from changes in personnel policies (the effects of which are more difficult to project). Moreover, the Army could well change the planned policies by or after 1983.

4/ These unemployment rates come from CBO's latest baseline economic assumptions. The forecast is subject to an unusual degree of uncertainty about the rate of economic recovery.

points over the period, relative to that of the 8 percent pay raise, but the Army could still just meet the minimum standard of 65 percent male high school graduates in years 1983 to 1987.

- An 8 percent pay increase limited to the more senior pay grades would also hold the entire career force's growth between 1982 and 1987 to 125,000, or 15 percent. Recruitment would worsen in all services, but the Army could still realize 65 percent male high school diploma graduates in 1983. In subsequent years, however, the Army might not attract enough high school graduates to meet this minimum standard for recruitment.

- If the Congress gave no pay raise in 1983, the active-duty enlisted career force would grow much more slowly by 87,000 or 10.5 percent, between 1982 and 1987. While the percentage of male recruits holding high school diplomas would decrease in all services, the Army could fall short of meeting the 65 percent minimum standard in years 1983 to 1987.

- Relative to the cost of the Administration's proposed pay raise, a 4 percent across-the-board raise would reduce outlays for military personnel by $1.5 billion in 1983, and by a total of almost $9 billion over the next 5 years. 5/ (Costs appear in current dollars.) Savings under an 8 percent increase for senior pay grades with no raise for pay grades E-1 to E-4 and O-1 and O-2, would amount to roughly $1.1 billion in 1983, and to a total of $6.8 billion in fiscal years 1983 to 1987. Finally, by giving no pay raise, the Congress would reduce outlays by $2.9 billion in 1983 and by a total of $18 billion over the next 5 years.

Table 1 summarizes these major findings.

5/ These figures reflect savings for all those pays and allowances tied to the pay raise, including retirement pay. Retirement savings based on an accrual accounting method appear separately in later sections.

TABLE 1. CBO ESTIMATES OF THE COSTS AND EFFECTS OF ALTERNATIVE OCTOBER 1982 PAY RAISES (Summary of Major Findings)

	Baseline (Administration's Pay Raise)	4 Percent Across-the-Board Raise	8 Percent Raise for Senior Pay grades	No Pay Raise
Increase in the DoD Career Force Between 1982 and 1987				
Percent	20.5	15.0	15.0	10.5
Number	167,000	125,000	125,000	87,000
Percent of Male Recruits Holding High School Diplomas in 1983, (and average for 1984 to 1987)				
DoD	75 (81)	72 (75)	69 (73)	68 (71)
Army	72 (69)	68 (65)	65 (63)	63 (60)
Change in Outlays for Military Personnel (millions of current dollars) a/				
1983	--	-1,468	-1,141	-2,936
Total 1983-1987	--	-8,990	-6,817	-17,981

a/ Includes retirement pay.

CAREER FORCE RETENTION

Table 2 shows the career force (the sum of experienced personnel) associated with the various pay raises. These estimates suggest that the career force could continue growing under each alternative to the Administration's pay proposal, though at varying rates of increase. Nonetheless, the greatest increases in the career force would result from an 8 percent across-the-board raise, which would maintain comparability with civilian pay.

Relative to the effects of an 8 percent across-the-board raise, the career force would grow least if military personnel received no pay raise in 1983. Between 1982 and 1987, the Army's rate of increase would diminish by almost three-quarters, the Navy's by about one-third, and the Air Force's and Marine Corps' rates of increase by almost one-half. At these rates, the military would realize about 80,000 fewer members in its career force by 1987. Yet, even under these slower rates of growth, each service could still meet or exceed its planned career force in fiscal year 1983. 6/ Plans beyond 1983 are generally not available. The Navy, however, has published objectives for years through 1987 for its top six enlisted grades, which could be more difficult to meet if the Congress gave no pay raise in 1983.

Both an 8 percent pay raise restricted to pay grades E-5 to E-9, and a 4 percent across-the-board pay raise, would produce similar growth in the enlisted career force. The restricted raise, even though it gives more than 4 percent to most experienced personnel, would fail to do much better than the 4 percent across-the-board raise because the career force contains many experienced members who are still in pay grade E-4 (and who would receive no increase in pay under the restricted proposal). Nevertheless, the restricted raise would still produce more senior, if not experienced, personnel.

In the Air Force, where promotion policies entail the longest service in pay grade E-4, a 4 percent across-the-board raise would realize 2,000 more experienced personnel by 1987 than would an 8 percent restricted raise. In the Army, where enlisted members make rank slightly faster than do members in the other

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6/ The services' planned fiscal year 1983 career force levels appear in The Annual Report to the Congress on the Fiscal Year 1983 Budget, p. III-164.

TABLE 2. PROJECTED NUMBER OF ENLISTED PERSONNEL WITH MORE THAN FOUR YEARS OF ACTIVE-DUTY SERVICE UNDER ALTERNATIVE OCTOBER 1982 PAY RAISE PROPOSALS, FISCAL YEARS 1982 TO 1987 (In thousands)

	1982	1983	1984	1985	1986	1987
Baseline (Administration's Pay Raise)						
Army	302	319	339	344	346	349
Navy	213	226	241	252	261	273
Air Force	245	252	259	268	274	283
Marine Corps	56	61	66	71	74	78
TOTAL	816	858	905	935	955	983
4 Percent Across-the-Board Raise						
Army		315	330	331	330	333
Navy		224	237	245	253	264
Air Force		250	254	260	264	271
Marine Corps		60	64	68	70	73
TOTAL		849	885	904	917	941
8 Percent Raise for Senior Pay grades (E-5 to E-9)						
Army		316	331	332	332	335
Navy		224	237	245	252	264
Air Force		249	252	258	261	269
Marine Corps		60	64	67	70	73
TOTAL		849	884	902	915	941
No Pay Raise						
Army		312	321	319	314	315
Navy		222	233	239	244	255
Air Force		248	250	255	257	265
Marine Corps		59	62	64	66	68
TOTAL		841	866	877	881	903

NOTE: These projections assume no constraint on growth in the career force. Figures in years 1982 and 1983 are based on actual reenlistment rates for fiscal year 1981--adjusted for increases in pay by assuming an elasticity of overall retention of about 1.0--whereas figures in later years are based on the actual reenlistment rates for fiscal year 1979, adjusted for subsequent pay raises. End strengths reflect the services' budgeted levels for fiscal year 1983.

services through pay grade E-5, it is the restricted raise that would realize 2,000 more experienced personnel by 1987. In the Navy and Marine Corps, the two alternatives show no significant differences.

Some of the services might be willing to accept the lower rates of growth associated with the alternative pay raises. Historically, the Marine Corps has not allowed its career force to grow much above 50,000 members; this level would be achieved under any of the pay raise alternatives. Similarly, the Army is presently taking steps to constrain reenlistments into its career force. 7/

In contrast, the Navy has argued strongly for increases in its career force. Under the three alternative pay raise proposals, the Navy would realize increases ranging from 20 to 24 percent between 1982 and 1987.

ENLISTED RECRUITMENT

The alternatives to the Administration's recommended pay raise would lessen the success of enlisted recruitment in future years because they would:

- Decrease the supply of hard-to-recruit male high school graduates who place in the upper test-score categories; and
- Slow the career force's growth and thus increase the number of recruits needed to man the active-duty force.

Table 3 shows CBO's estimate of these joint effects, expressed as the percentage of male enlistees without prior military service who hold high school diplomas. Overall educational levels are an important indicator of the quality of the military work force, because high school graduates are more likely than nongraduates to adjust successfully to military life. 8/

7/ See: Department of Defense, Manpower Requirements Report for FY 1983, February 1982, pp. III-14, III-15.

8/ The rate of attrition for non-high school graduates (failure to complete the full term of enlistment) is roughly twice that for graduates.

TABLE 3. ESTIMATED PERCENT OF MALE RECRUITS WITHOUT PRIOR MILITARY SERVICE HOLDING HIGH SCHOOL DIPLOMAS UNDER ALTERNATIVE OCTOBER 1982 PAY PROPOSALS, FISCAL YEARS 1983 TO 1987

	1983	1984	1985	1986	1987
All Services					
Administration's pay raise	75	82	81	80	79
4 percent across-the-board raise	72	77	76	75	73
8 percent raise for senior pay grades	69	74	74	73	71
No pay raise	68	72	72	70	68
Army Only					
Administration's pay raise	72	68	70	69	68
4 percent across-the-board raise	68	64	66	64	64
8 percent raise for senior pay grades	65	62	64	62	62
No pay raise	63	60	62	59	59

NOTE: These percents are based on CBO's forecasted supply of male recruits who have high school diplomas and who score in the top three categories on the military's entrance examination--the so-called "high-quality" recruits. The Rand Corporation has prepared for the Department of Defense two forecasts of high-quality recruits in the period 1983 to 1987, one reflecting an outlook for recruitment like that of CBO's forecast, the other reflecting a more optimistic outlook. Under the more optimistic forecast, the Army could exceed the 65 percent minimum standard for high school graduates in 1983 even if the Congress gave no pay raise in October 1982.

While all services would experience fall-offs in recruitment, the Army would face the most serious problems. Under a 4 percent across-the-board pay raise, the Army could exceed by a comfortable margin the 65 percent high school graduate standard in 1983 (assuming that 20 percent of its recruits without prior military service place in test-score Category IV). Decreasing numbers of youths and declining rates of unemployment would, however, eliminate this margin beyond 1983; the Army's percentage of male high school graduates would practically average 65 percent over the period 1984 to 1987.

Under an 8 percent pay raise for only senior pay grades, the Army would just meet the minimum standard of 65 percent male high school graduates in 1983. But the average over the following four years would drop to about 63 percent. If the Congress gave no pay raise in 1983, the Army could fall just below the 65 percent statutory minimum in 1983, and well below in later years.

As was noted above, these results assume that policies concerning enlistment and reenlistment remain unchanged over the next five years. The Army could, however, initiate changes that would improve the outlook for recruitment even with no military pay raise in 1983. Such changes could include increases in the recruitment of women--female recruits are generally not in short supply--or increases in the recruitment of civilians with prior military service. Depending on Congressional approval, the Army could also improve recruitment by making greater use of enlistment inducements like bonuses and educational benefits, or by increasing resources in support of recruitment. Continuation of high unemployment rates would also improve the outlook for recruitment.

On the other hand, certain changes in policy or in the economy would worsen recruitment. For instance, the imposition of tougher standards for reenlistment would limit the career force's growth, thereby increasing requirements for recruits. Or the economy might improve more rapidly than projected, causing a decrease in the supply of highly qualified volunteers.

COSTS

Table 4 shows the savings in outlays for military personnel associated with the three alternatives to the Administration's recommended October 1982 pay raise. The cost of the Administration's 8 percent October 1982 raise would amount to $2.9 billion in 1983, and a total of $17.4 billion in fiscal years 1983 to

TABLE 4. OUTLAYS FOR MILITARY PERSONNEL ASSOCIATED WITH ALTERNATIVE OCTOBER 1982 PAY RAISES, FISCAL YEARS 1983 TO 1987
(In millions of current dollars)

	1983	1984	1985	1986	1987	TOTAL 1983-1987
Cost of the Administration's Proposed October 82 Raise	2,917	3,264	3,523	3,750	3,982	17,436
Change in Outlays Under:						
4 percent across-the-board pay raise	-1,458	-1,632	-1,761	-1,876	-1,991	-8,718
8 percent raise for senior pay grades	-1,141	-1,276	-1,377	-1,466	-1,557	-6,817
No pay raise	-2,917	-3,264	-3,523	-3,750	-3,982	-17,436

NOTE: Costs after 1983 assume the Administration's planned military pay raises (7.6 percent in 1984; 5.5 in 1985; 5.0 in 1986-1987). The alternative pay raises apply equally to officers and enlisted personnel. (Under a raise for senior pay grades, officers in pay grades O-1 and O-2 would receive no increase.)

1987. These estimates assume that military pay after 1983 would increase at the rate now planned by the Administration, and that other pay policies in effect during 1983 would continue in subsequent years. Table 4 includes costs for basic pay and for other pays tied to basic pay, except retirement pay (which appears in Table 5). Also, Table 4 includes costs for active-duty officers and reserve personnel, as well as for active-duty enlisted personnel.

Relative to the Administration's planned pay raise, a 4 percent across-the-board raise would decrease outlays for military personnel by about $1.5 billion in 1983, and by a total of $8.7 billion over the next five years. If the Congress gave no pay raise, outlays would of course decrease by the cost of the Administration's pay raise--$2.9 billion in 1983 and a total of $17.4 billion in years 1983 to 1987. An 8 percent raise for more senior personnel would produce savings in 1983 of $1.1 billion, and five-year savings of $6.8 billion.

Besides reducing outlays for military personnel who are in service, the alternatives of a 4 percent across-the-board pay raise and no pay raise in 1983 would decrease retirement costs because those now on active duty who retired in years 1983 to 1987 would receive a lower annuity. Table 5 shows these effects on outlays or, alternatively, on accrual charges, over the next five years. 9/ Under present accounting rules, retirement outlays would decrease by roughly $10 million or $20 million in fiscal year 1983, and by a total of roughly $270 million or $545 million over the next five years, under a 4 percent raise or no pay raise, respectively. Accrual accounting would show substantially greater savings in the defense budget function, because it reflects the long-run effects of the pay raise. A 4 percent raise would reduce the accrual charge in 1983 by about $500 million, and over the next five years by nearly $3 billion, signifying corresponding decreases in both outlays and budget authority. The accrual charge would decrease by roughly $990 million in 1983, and by a total of $5.9 billion in fiscal years 1983 to 1987, if the Congress gave no pay raise.

9/ Estimates of budget authority are similar to estimates of outlays.

TABLE 5. RETIREMENT COSTS OF MILITARY PERSONNEL UNDER ALTERNATIVE OCTOBER 1982 PAY RAISES, FISCAL YEARS 1983 TO 1987
(In millions of current dollars)

	1983	1984	1985	1986	1987	TOTAL 1983-1987
Change in Outlays Under Present Accounting Rules a/						
4 percent across-the-board pay raise	-10	-31	-52	-76	-103	-272
8 percent raise for senior pay grades	0	0	0	0	0	0
No pay raise	-19	-62	-105	-153	-206	-545
Annual Changes Under Accrual Accounting b/						
4 percent across-the-board pay raise	-496	-555	-599	-638	-677	-2965
8 percent raise for senior pay grades	0	0	0	0	0	0
No pay raise	-989	-1,107	-1,195	-1,272	-1,350	-5,913

a/ Under present accounting rules, the defense budget function shows only the retirement cost of past employees.

b/ Under an "accrual" accounting rule, which the Administration intends to propose, the budget would show the amount that would have to be set aside to fund in full the retirement liabilities that military personnel earn, or accrue, each year (the accrual charge).

APPENDIX A. DETERMINING THE MILITARY PAY RAISE

Under current law, the annual increase in military pay must equal the average raise given to General Schedule (GS) federal employees, unless the Congress or the President decides otherwise. 1/ GS salary levels are putatively based on the principle of comparability, intended to ensure federal employees rates of pay like those received by civilians in the private sector for the same types of work.

Under the principle of comparability, changes in the rate of pay are determined by an annual survey of the pay of professional, administrative, technical, and clerical (PATC) workers in the private sector. The President can, though, recommend an alternative raise, as he did in fiscal years 1975 and 1979 to 1982. For fiscal year 1983, the Administration has recommended an 8 percent raise to maintain the comparability of military pay.

Raises that are appropriate for civilians in the private sector may not always be appropriate for military personnel. Occupations included in the PATC survey focus on white-collar jobs, yet the skills of many enlisted personnel correspond more closely to those of blue-collar jobs. The Administration's Military Manpower Task Force has recently recommended basing future military pay raises on average pay increases in the private sector as measured by the Economic Cost Index (ECI). The ECI measures wage and salary changes for all major occupations except farmers, household workers, and federal civilian employees.

1/ The Congress uncoupled the October 1981 military and GS pay increases, authorizing 14.3 percent for the services and 4.8 percent for civilians. The uncoupling applied only to the 1981 raise. Permanent law (37 U.S.C. 1009) allows the President further "reallocation" authority. The President can reallocate annual pay increases among basic pay, BAQ, and BAS, and among pay grade and years-of-service categories, so long as the increase in basic pay is at least 75 percent of what it would have been had reallocation authorization not been invoked. Personnel with four years or less of service, however, cannot receive pay increases exceeding the percentage increase in GS pay rates.

Because the military competes in the blue-collar labor market for much of its enlisted manpower, CBO analyses of military manpower use estimates of wage increases for nonfarm production workers (primarily manufacturing) in the private sector to determine the amount of increase in military pay that would maintain comparability. CBO assumes that such a raise would amount to 7.9 percent in 1983, which is approximately equal to the Administration's proposed comparability increase.

Several factors could cause the actual increase in private sector wages to be less than projected. In that case, this report would have overestimated the adverse effects on recruitment and retention of the alternative pay raises. First, a more rapid slowdown in the increase of the cost of living could lessen the demand for wage catch-ups. Second, the continuation of high unemployment rates could exert some downward pressure on wages. Finally, major collective bargaining settlements may reach lower wage settlements, as in the automobile sector recently. 2/

2/ See Congressional Budget Office, The Prospects for Economic Recovery, Part I (February 1982).